NEWFOUNDLAND
LIQUOR
CORPORATION

ANNUAL REPORT 1991

93-02656/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honorable Dr. Hubert Kitchen
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1C 5T7

Dear Dr. Kitchen:

I am pleased to submit the 18th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1991 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, C.M.A.
President.

P.O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1
•TELEPHONE (709) 754-1100 TELEX 016-4923 FAX 754-0321•

Finance

During the fiscal year ended March 31, 1991, the Corporation realized a net income of $79,886,874 before the extraordinary loss of $444,912 on FST rebate, an increase of $488,091 over the previous year. This income was derived from two sources:

1. $39,340,791 from the sale of spirits, wines and beer through Corporation liquor stores and liquor agency stores; and,
2. $40,546,083 through the collection of a Corporation markup on local beer.

Corporation liquor store and agency store operations resulted in sales of $95,822,365, an increase of $154,151 over the previous year. Income from beer commissions totalled $40,546,083, an increase of $704,980 over the previous year. Operating and administrative expenses for 1990-91 totalled $15,076,653, an increase of $302,920 over the previous year.

Store Operations

While the number of outlets in the retail system remained at thirty-seven stores and fifty-five agencies during the year, extensive changes took place at specific physical locations.

The Churchill Square store was opened in the Terrace in the Square complex on December 17, with major decor improvements, extended service hours, and additional product listings resulting in very positive consumer reactions. The Corner Brook Plaza store was enlarged and relocated while contracts were awarded to reduce the size of the Port aux Basques store and move it to a new location, both within their present shopping centres. Renovations continued at the Harbour Grace liquor store; and a new section for displaying beer was installed in the Elizabeth Avenue store in St. John's.

In order to provide additional office space, plans were drawn up and finalized to move the Licensee store from the Head Office building to a free standing building directly behind the Corporation's offices. The majority of work has been completed on this project and the actual move is expected to take place in the early summer of 1991.

The agency store at Cape St. George on the Port-au-Port Peninsula was re-advertised, with the result of the competition being a move to the community of Marches Point, which will provide better service to the overall area. Agency stores in Wesleyville and Robert's Arm underwent renovations in order to provide better service to their patrons.

Approval was received at year end to replace two of the Corporation's lower-volume stores at St. Lawrence and Holyrood to agency operations. Newspaper ads requesting applications for agencies in St. Lawrence and Holyrood were issued late in the fiscal year.

Negotiations with the Bargaining Unit occupied a prominent position during the year. One of the major developments affecting the stores which came out of the agreement reached on November 26 was the understanding with the union that up to five low volume stores would be closed and replaced with agencies during the period November 26,1990 to March 31, 1993.

The implementation of the Federal Goods & Services Tax on January 01 necessitated preplanning for the stores regarding revision of procedures and forms for recording sales information, reprogramming of cash registers to accommodate the tax, training of staff to handle licensee, agency, and general public inquiries, and recalculating prices and costs for all products. To reduce the Corporation's potential loss through the G.S.T. inventory rebate, all stores dramatically reduced in-store inventories for the Christmas period, with the result that significant savings were achieved with only minimal service problems caused by the lowered inventories.

Staff training continued to receive major emphasis during the year with seminars in June for store Managers and in November for Assistant Managers, focusing largely on balancing computer generated inventory and sales information with the in-store manual records.

Head Office management personnel conducted seminars in the Western and Central Regions, as well as in St. John's, early in 1991 to provide training to store Managers and to handle inquiries regarding the impact of the newly-signed collective agreement and the introduction of the Goods & Services Tax. A seminar on the prevention of shoplifting presented by the R.C.M.P. was held in the central region for store personnel.

A new Manager and Assistant were appointed at the Corner Brook Plaza store while a new Assistant Manager was appointed at the Clarenville store.

The Corporation's sales performance continued to out-pace the national average, though per capita consumption and actual case sales continue to decline in all provinces. Particularly healthy sales growth continued with Australian and Chilean wines, as well as with varietal and specialty wines, and the introduction of the 1.75 litre size for twenty of the top-selling spirit brands provided the general public and licensees with an additional purchase option.

While generic Christmas displays have been used in the past, for the first time the Corporation organized widespread use of displays of branded, gift-boxed spirits in the stores during December, in order to further capitalize on the gift market. With positive sales results having been recorded and with very few problems with floor space and the servicing of displays, the Christmas promotions will be expanded in future.

The use of branded and special occasion in-store displays during all other times of the year continued to be very successful, with enthusiastic support from suppliers and from store staff.

Suppliers from California, France, Germany, and Italy conducted product tastings in St. John's while the Corporation organized tastings of first growth Bordeaux reds in St. John's and of a variety of general wines for the Western Community College in Stephenville.

As a result of tests conducted in previous years, the hours of service of eight of the larger stores outside of St. John's and Corner Brook were expanded to include Mondays, so that their markets would be provided with six day coverage. In addition, Friday night openings were added to two lower volume stores located in shopping malls.

Testing of a Shelf Management System, along with associated changes to the Branch Inventory and Sales computer reporting approach, is being conducted at the Terrace in the

Square Store, and will be extended to other stores in the fall of next year, if test results are positive.

Because of the large number of cardboard boxes used in the stores, arrangements were made to have a recycling company collect these materials from the stores in St. John's and Corner Brook, along with other, non-recyclable garbage.

Monitoring of the quality of products being sold continued as a priority with numerous tests conducted by the Corporation's Quality Control laboratory on products resulting from customer complaints or from information received from suppliers or other liquor jurisdictions. Only two products were removed from the market because of defects, though neither product represented a serious health hazard for consumers.

Smuggling of products from St. Pierre continues to have a significant negative affect on Corporation sales in some areas and efforts to reduce this problem are only moderately successful. "Dial-A-Smuggler" posters, prepared by the R.C.M.P., were distributed for display in all stores and agency outlets.

Production and Distribution

The central Warehouse continued to receive and distribute domestic and imported products in an efficient and cost effective manner. A total of 524,429 cases were received and 537,856 shipped to stores, agencies, and liquor boards in other provinces.

The practice of reviewing inventories and deleting slow moving products continued; and the introduction of the G.S.T. emphasized the need to reduce inventories during the critical Christmas period when 20% of annual sales are realized. The combined efforts of the Product Supply and Store Operations departments resulted in a 30% reduction in inventories thereby avoiding a loss of $306,000 because the G.S.T. rebate on inventories was only for a portion of the already paid F.S.T..

Production of locally bottled products for other suppliers and for the Corporation's own brands was 109,088 cases; and sales of these products in the local market were down 5.6%. However, sales of Corporation produced products to other provinces increased by 2% and increased their share of the Canadian market which declined by 5.9%. It is planned to improve upon this performance with the appointment of new local sales agents in each province.

A program to encourage local consumers to purchase Newfoundland alcoholic beverage products — i.e., those products bottled by the Corporation — is planned for next year. Corporation produced products are of equal quality to imported brands, while offering the consumer a saving and providing additional profit for the Corporation.

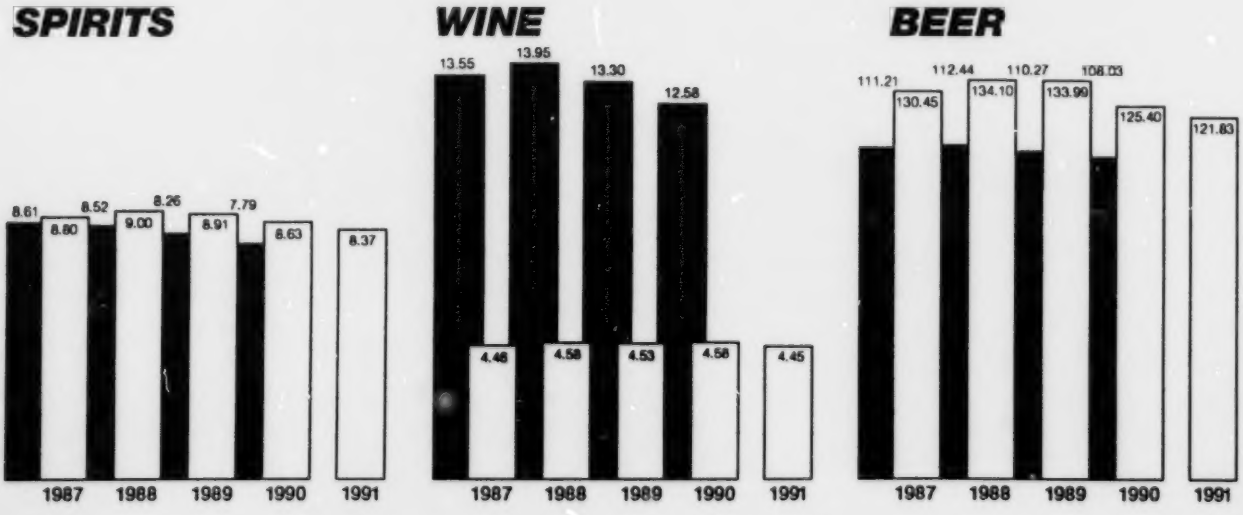
Newman's Port, bottled in Newfoundland for over 300 years was awarded a bronze medal at the International Wine Competition — InterVin — held in Toronto in May 1990.

A contract was signed to bottle Ron Matusalem rums from Costa Rica for sale and distribution in Canada; and preparations were made to introduce Old Sam Light rum in the local market.

Two used bulk transportation tanks were purchased to add more flexibility for scheduling production runs to help offset the

Per Capita Consumption
Litres
Fiscal year ended March 31, 1991
By population 19 years of age and over

Provincial Average
National Average



continuing transportation difficulties in the West Indies and overcome the high cost of barrels.

The Bottling Plant was modified so that a new rotary labeller could be installed to improve production efficiency and improve the overall appearance of products. A new water deionizer was installed in the Blending department; and equipment in the Quality Control laboratory was upgraded with the replacement of a gas/liquid chromatograph and spectrophotometer to ensure that all tests for quality keep pace with improvements in technology.

Human Resources

Negotiations for a new collective agreement commenced in early April 1990 and an agreement was reached in late November, with the assistance of a conciliation officer. The agreement was signed December 17, 1990 and will expire March 31, 1993. There were fourteen grievances filed in 1990-91; all of these grievances were resolved without the necessity of arbitration. One grievance from the previous fiscal year was decided by an arbitrator.

Preparation began in the fiscal year for the Corporation's involvement in the pay equity process. It is anticipated that the selection of a job evaluation system and information gathering regarding positions will take place during the next fiscal year. This information will then be used to evaluate positions and to determine whether pay equity wage adjustments are necessary.

A Service Awards Policy was adopted by the Corporation to recognize long-service employees. Bronze, silver and gold pins were awarded to employees with ten, fifteen and twenty-five years of service respectively. The program has been well received by employees.

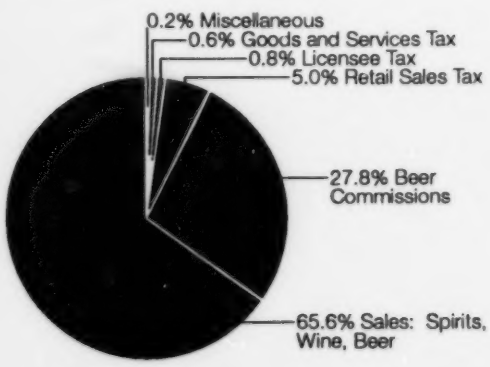
Over the past year, the Human Resources and Systems departments were involved in modifying and testing a payroll package which was purchased for use on our own mainframe computer. Implementation of the new system will occur in 1991-92.

Training and education activities occurred through seminars and the tuition reimbursement program. The Centre for Management Development presented a one-week supervisory management course to store managers and head office managers. This was a continuation of a program which commenced last year.

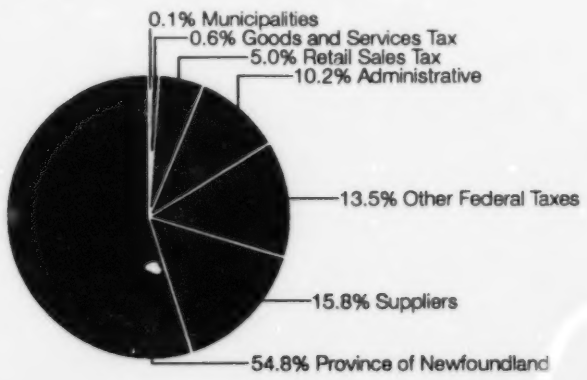
Acknowledgement

The Corporation gratefully acknowledges the effort and cooperation of the employees, and the support of the Board of Directors.

SOURCES OF REVENUE



APPLICATION OF REVENUE



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have audited the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1991 and the statements of income, retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 1991 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

E. P. Sweeney, C.A.

for C.R. Hart, C.A.
Auditor General (Acting)

St. John's, Newfoundland
29 August 1991

Balance Sheet, March 31, 1991

Assets

Current Assets	1991	1990
Cash	$ 4,876,977	$ 4,400,441
Accounts receivable (Note 2)	1,291,637	593,345
Beer Commissions receivable	3,247,414	3,001,126
Inventories, at cost (Note 3)	15,214,276	16,933,532
Prepaid expenses	307,176	285,511
Total current assets	24,937,480	25,213,955
Fixed assets, at cost less accumulated depreciation (Note 4)	5,488,658	5,380,563
Assets under capital lease, at cost less accumulated amortization of $306,103 (1990 - $256,436)	12,634	62,301
Other assets, at cost less accumulated amortization (Note 5)	463,664	387,429
Total assets	$30,902,436	$31,044,248

Liabilities and Retained Earnings

Current Liabilities		
Accounts payable	$ 4,186,211	$ 3,338,216
Accrued liabilities	4,389,250	4,351,569
Current portion of obligation under capital lease	-	69,450
Current portion of long-term debt (Note 6)	400,000	400,000
Total current liabilities	8,975,461	8,159,235
Long-term debt (Note 6)	2,300,000	2,700,000
	11,275,461	10,859,235
Retained earnings		
Due to the Province of Newfoundland	19,626,975	20,185,013
Total liabilities and retained earnings	$30,902,436	$31,044,248

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings

For the Year Ended 31 March 1991

	1991	1990
Balance, beginning of year	$ 20,185,013	$ 19,786,230
Net income for the year	79,441,962	79,398,783
	99,626,975	99,185,013
Payments to the Province of Newfoundland	80,000,000	79,000,000
Balance, end of year	$19,626,975	$20,185,013

See accompanying notes

Statement of Income

For the Year Ended 31 March 1991

	1991	1990
Sales	$ 95,822,365	$ 95,668,214
Cost of goods sold		
Inventory, beginning of year	16,933,532	14,157,923
Purchases	41,059,485	45,527,824
Cost of goods available for sale	57,993,017	59,685,747
Less: Inventory, end of year	15,214,276	16,933,532
	42,778,741	42,752,215
Gross profit	53,043,624	52,915,999
Other operating income		
Commission on licensee purchases	1,130,447	1,181,964
Miscellaneous	243,373	233,450
	1,373,820	1,415,414
	54,417,444	54,331,413
Administrative and operating expenses (Schedule 1)	15,076,653	14,773,733
Net income from liquor store operations	39,340,791	39,557,680
Commission revenue on sale of beer	40,546,083	39,841,103
Net income before extraordinary item	79,886,874	79,398,783
Extraordinary item (Note 11)		
Loss on Federal Sales Tax rebate	444,912	-
Net income	$79,441,962	$79,398,783

See accompanying notes

Statement of Changes in Cash Position

For the Year Ended 31 March 1991

	1991	1990
Cash provided by (used in) operating activities		
Net income from liquor store operations	$ 39,340,791	$ 39,557,680
Commission revenue on sale of beer	40,546,083	39,841,103
Extraordinary item - Loss on Federal Sales Tax rebate	(444,912)	-
Add: Items of non-cash nature		
Depreciation	610,203	514,706
Amortization	245,209	201,220
Loss on disposal of fixed assets	47,352	1,280
Changes in non-cash working capital	1,569,237	(1,507,638)
	81,913,963	78,608,351
Deduct: Payments to the Province of Newfoundland	80,000,000	79,000,000
	1,913,963	(391,649)
Cash provided by (used in) financing activities		
Proceeds from disposal of fixed assets	300,632	646
Payments under capital lease	-	(69,450)
Repayments of long-term debentures	(400,000)	(400,000)
	(99,368)	(468,804)
Cash provided by (used in) investing activities		
Additions to fixed assets	(1,066,282)	(867,164)
Additions to other assets	(271,777)	(28,787)
	(1,338,059)	(895,951)
Increase (decrease) in cash flow during the year	476,536	(1,756,404)
Cash, beginning of year	4,400,441	6,156,845
Cash, end of year	$4,876,977	$4,400,441

See accompanying notes

Schedule of Administrative and Operating Expenses

For the Year Ended 31 March 1991

	1991	1990
Salaries and employee benefits	$ 8,368,754	$ 8,269,659
Rent	908,965	762,264
Freight to stores	271,831	279,545
Agency store commissions and expenses	1,990,300	1,962,037
Municipal and school tax	166,534	156,010
Travel	116,907	125,304
Heat and Light	367,741	299,812
Cleaning	194,268	202,308
Communications	137,930	134,799
Advertising	18,589	15,064
Computer services	29,353	45,697
Directors' fees and expenses	5,526	8,245
Interest and bank charges	82,449	51,102
Motor vehicle expenses	9,398	3,806
Consultants' fees	29,612	24,359
Security	73,287	70,353
Store supplies and wrapping	111,351	101,801
Stationery and office supplies	105,520	129,376
Postage	36,338	32,787
Repairs and maintenance	304,393	253,926
Inventory breakage and shortage	98,797	107,108
Marketing	341,696	385,691
Dues and subscriptions	13,432	12,785
Insurance	36,012	46,595
Professional fees	30,779	32,288
Depreciation	514,858	475,194
Amortization	189,048	191,964
Uniforms	16,544	52,517
Staff recruitment	7,043	15,317
Staff training	91,683	101,876
Miscellaneous	22,957	29,445
Labour negotiations and grievances	7,962	4,573
Loss on disposal of fixed assets	47,352	1,280
Bad debt expense	5,598	3,635
Interest on long-term debt	323,846	385,211
	$15,076,653	$14,773,733

Notes to Financial Statements

Year Ended 31 March 1991

1. Accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the following rates:

Buildings	5%
Store equipment and fixtures	20%
Motor vehicles	33 1/3%
Office furniture and equipment	10% and 20%
Plant and warehouse equipment	20% and 33 1/3%

Depreciation is recorded on a monthly basis with depreciation of an asset commencing in the month of acquisition and ending in the month prior to disposal.

The Blending Department's share of depreciation and amortization expense amounting to $151,506 ($48,768 - 1990) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1991	1990
Head office	$ 105,452	$ 12,011
Other locations	66,026	116,970
	$171,478	$128,981

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1991 was $8,364 ($8,364 - 1990).

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1991 was $49,667 ($63,875 - 1990).

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1991	1990
Customs duty	$ 2,457,583	$ 2,251,587
Excise duty	1,045,803	977,969
Federal sales tax	-	305,658
	$3,503,386	$3,535,214

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. Accounts receivable

	1991	1990
Trade	$ 576,106	$ 511,241
Claims	183,841	74,285
Federal Sales Tax rebate	527,992	
Other	13,687	15,337
	1,301,626	600,863
Less: Allowance for doubtful accounts	9,989	7,518
	$1,291,637	$593,345

3. Inventories

	1991	1990
Raw materials	$ 1,166,008	$ 1,087,577
Head office inventory	4,308,459	5,419,890
Branch stores inventory	4,360,227	5,145,455
Stock in transit	1,584,668	1,696,688
Finished goods	3,789,116	3,528,461
Work in process	5,798	55,461
	$15,214,276	$16,933,532

4. Fixed assets

	Cost	Accumulated Depreciation	Net Book Value 1991	Net Book Value 1990
Land	$ 1,162,841	$ -	$ 1,162,841	$ 1,162,841
Buildings	4,648,261	1,583,541	3,064,720	3,022,967
Store equipment and fixtures	1,336,832	854,793	482,039	630,287
Motor vehicles	67,593	23,347	44,246	42,446
Office furniture and equipment	797,539	516,214	281,325	203,448
Plant and warehouse equipment	1,732,232	1,278,745	453,487	318,574
	$9,745,298	$4,256,640	$5,488,658	$5,380,563

5. Other assets

	Cost	Accumulated Amortization	Net Book Value 1991	Net Book Value 1990
Leasehold improvements	$ 3,114,488	$ 2,816,442	$ 298,046	$ 213,447
Leased Land	248,925	83,307	165,618	173,982
	$3,363,413	$2,899,749	$463,664	$387,429

6. Long-term debt

	1991	1990
A 12 1/8%, $2,000,000 debenture, issued to the National Trust Company Limited as Trustees for Prudential Insurance Company of America and transferred to Canada Trust, repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	$600,000	$800,000
An 11 7/20%, $1,500,000 debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in fifteen equal consecutive annual principal instalments of $100,000 commencing on 1 November 1989 and semi-annual interest payments on 1 May and 1 November, commencing on 1 May 1989. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	1,300,000	1,400,000
A 10 3/4%, $1,000,000 debenture, issued to Brant Investments and held by Royal Trust Company, repayable in ten equal consecutive annual principal instalments of $100,000 commencing on 15 June 1989 and semi-annual interest payments on 15 December and 15 June, commencing 15 December 1988. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	800,000	900,000
	2,700,000	3,100,000
Less: Current portion	400,000	400,000
	$ 2,300,000	$ 2,700,000

7. Related party transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited, however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Works, Services and Transportation, however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

8. Lease Commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1992	$ 796,834
1993	653,306
1994	589,940
1995	457,329
1996	278,684
	$ 2,776,093

9. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire.

10. Comparative figures

The Goods and Services Tax (GST) replaced the Federal Sales Tax (FST) effective 1 January 1991. Consequently, the sales and cost of sales figures for 1 April - 31 December 1990 include the federal sales tax portion. Sales and cost of sales after 1 January 1991 are consequently reduced by the impact of the removal of the FST.

11. Extraordinary item

As a result of the changeover in tax structure on 1 January 1991, the Newfoundland Liquor Corporation will receive a rebate from the federal government to compensate for the Federal Sales Tax (FST) portion of their inventory at that date. However, due to federal legislation limiting the amount of the rebate, the amount receivable by the Corporation is less than that actually paid for FST. The resulting shortfall of $444,912 has been accounted for in these financial statements as an extraordinary loss.

Board of Directors

Douglas M. Chafe, F.C.M.A.
President

Keith Griffiths
Vice-President, Operations

A.L. White, P.Eng.
Director
(Representing Government of Newfoundland,
Department of Finance)

Robert Clarke
Director
(Representing Government of Newfoundland,
Department of Finance)

George Furey
Director

George Billard
Director